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NEWS RELEASE

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PSC ALLOWS LG&E AND KU TO LEAVE MISO
Exiting regional grid operator would be best for Kentucky consumers

FRANKFORT, Ky. (May 31, 2006) – The Kentucky Public Service Commission (PSC) today authorized the state's two largest electric utilities to withdraw from the Midwest Independent System Operator (MISO).

In a 2-1 decision, with Vice Chairman Teresa Hill and Commissioner Gregory Coker in the majority, the PSC ruled that allowing LG&E and KU to withdraw from MISO would serve the interests of their customers by reducing costs and maintaining local control over key aspects of the utilities' operations.

Chairman Mark David Goss dissented, saying that allowing the withdrawal would leave Kentucky poorly positioned to influence electric policy during the inevitable regionalization of transmission infrastructure and markets.

Because the Federal Energy Regulatory Commission (FERC) earlier this year granted approval to LG&E and KU's exit from MISO, today's PSC order clears the way for the two utilities to begin the withdrawal process.

Louisville Gas & Electric Co. (LG&E) and Kentucky Utilities Co. (KU) joined the regional transmission organization, or RTO, in 1998.

Even though the utilities will have to pay MISO an exit fee estimated at about \$40 million, they argued that getting out of MISO would produce annual savings of \$4 million to \$13 million. The PSC found the utilities' analysis more persuasive than a MISO-produced study claiming net benefits for continued membership.

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Under today's order, LG&E and KU will have to balance the exit fee against the money that will be saved by no longer paying MISO administrative fees, and account for both when they next file a request for a rate adjustment. The exit from MISO thus will have no immediate impact on rates.

The PSC also found that MISO's creation of a wholesale energy market, combined with MISO's functional control of the LG&E and KU transmission system, had the effect of reducing the ability of the PSC to exercise jurisdiction over LG&E and KU's electric costs.

In his dissent, Chairman Goss said that he found the claims of cost savings unpersuasive and that the benefits of MISO membership had been understated. With federal policy moving toward regionalization, continued participation by LG&E and KU in MISO would afford Kentucky more influence in planning for regional transmission improvements, he said.

LG&E and KU's membership in MISO has been the subject of a PSC investigation for nearly three years. The PSC initially opened the proceeding to examine four issues:

- Whether the utilities benefit from MISO membership.
- Whether MISO's expansion into areas not in its original mission would interfere with state regulation of the utilities.
- Whether the two utilities should have sought PSC approval prior to transferring control of their transmission systems to MISO.
- Whether LG&E and KU would be better served by joining an RTO based in the South, where utilities operate under regulatory schemes similar to that in Kentucky.

Subsequently, the proceeding was expanded to consider MISO's move to establish and operate an energy market and whether LG&E and KU should consider joining other RTOs, not just those based in the South.

In ultimately seeking to withdraw from MISO, LG&E and KU said they will regain control over their transmission facilities and operate them in compliance with national standards. In addition, the utilities propose to retain the Tennessee Valley Authority (TVA) to provide grid reliability coordination services and the Southeast Power Pool (SPP) to comply with FERC requirements regarding electric power marketing. The TVA and SPP agreements are the subject of separate proceedings now before the PSC.

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In today's order, the PSC required LG&E and KU to report, within 10 days of the withdrawal from MISO, the amount of the exit fee and how it was paid. If the exit is not completed by July 1, 2006, LG&E and KU have until July 15, 2006, to file a status report setting forth the anticipated schedule for completing the withdrawal.

Today's order and other documents in the case are available on the PSC Web site, psc.ky.gov. The case number is 2003-00266.

The PSC is an agency within the Environmental and Public Protection Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in the Commonwealth of Kentucky and has approximately 110 employees.

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TIMELINE
LOUISVILLE GAS & ELECTRIC CO./KENTUCKY UTILITIES CO.
MEMBERSHIP IN MIDWEST INDEPENDENT SYSTEM OPERATOR

1998 – Louisville Gas & Electric Co. (LG&E) and Kentucky Utilities Co. (KU) become members of the Midwest Independent System Operator (MISO)

Feb. 1, 2002 – LG&E and KU transfer functional control of their transmission facilities to MISO

July 17, 2003 – PSC opens investigation into LG&E and KU membership in MISO

Feb. 25-27, 2004 and April 8, 2004 – PSC holds hearings in the case

March 31, 2004 – MISO files with Federal Energy Regulatory Commission (FERC) to operate energy market

June 22, 2004 – PSC reopens record in case to consider impact of MISO operating energy markets and to examine other options for LG&E and KU

April 1, 2005 – Following FERC approval, over objections of LG&E, KU and others, MISO begins operating energy markets

July 20, 2005 – PSC holds further hearings in case

Oct. 7, 2005 – LG&E and KU file petition with FERC to withdraw from MISO

March 17, 2006 – FERC grants conditional approval for LG&E and KU to withdraw from MISO